

CHEBOYGAN AREA PUBLIC LIBRARY BOARD OF TRUSTEES

100 S. Bailey Street, Cheboygan, MI 49721

231-627-2381

Held in the Cheboygan Area Public Library

Meeting Minutes: Thursday, November 10, 2016, 9:00 a.m.

Mary Kronberg called the meeting to order at 9:00 a.m. Board members present: Mary Ellen Enos, Mary Crusoe, Dick Wheelock, Elyn Kallio, Kay Forster and Phyllis Beyer.

Also present Library Director Mark Bronson.

**Approval of Minutes:** Phyllis Beyer made a motion to accept the October minutes. Dick Wheelock supported the motion. The motion passed unanimously.

**Financial Report, Including Payment of Bills:** Mary Ellen Enos presented the Financial Report and the Payment of Bills. Elyn Kallio made a motion to approve. Phyllis Beyer supported the motion. The motion passed unanimously.

**Director's Report:**

A member of the Audit company came for a full day a parts of 2 others to review records in preparation of the annual audit. There were questions about our procedures that we are discussing. Mark will make recommendations for updating and writing procedures in the future.

Mark gave the quarterly update for the library foundation. The end of the fiscal year report showed an overall increase for the year.

**New Business:**

Elyn Kallio made a motion to close the library on Friday, Nov. 25, the day after Thanksgiving. Kay Forster supported the motion. The motion passed unanimously.

Phyllis Beyer made a motion to give the staff a Christmas bonus at the same rate as the previous year. Elyn Kallio supported the motion. The motion passed unanimously.

Mark asked if the board would like the Northland Library Cooperative director, Roger Mendel, to conduct a board training session. The board asked Mark to make arrangements for sometime in the spring.

**Old Business:**

**Citizen's Comments:**

**Adjournment:** Dick Wheelock made a motion to adjourn the meeting at 10:00 a.m. Phyllis Beyer supported the motion. The motion passed unanimously.

Respectfully submitted,

Mark Bronson

# CHEBOYGAN AREA PUBLIC LIBRARY BOARD OF TRUSTEES AGENDA

Thursday December 8, 2016, 9:00 a.m.

Held in the Cheboygan Area Public Library

Call to order and Attendance	Action
Approval of Minutes	Action
Financial report, including payment of bills	Action
Director's Report	
Audit	Report
Policies	Report
DDA hearing	Report
New Business:	
Library Debt Rating	Report
Old Business:	
Citizen's Comments	
Adjournment	Action

# RatingsDirect®

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## Summary:

# Cheboygan Area Public Library, Michigan; General Obligation

### Primary Credit Analyst:

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## Summary:

# Cheboygan Area Public Library, Michigan; General Obligation

### Credit Profile

Cheboygan Area Pub Lib GO

*Long Term Rating*

A+/Stable

Affirmed

## Rationale

S&P Global Ratings affirmed its 'A+' long-term rating and stable outlook on Cheboygan Area Public Library, Mich.'s series 2013 unlimited-tax general obligation refunding bonds.

The rating reflects our opinion of the library district's:

- Adequate income and very strong wealth levels, supported by home purchases by wealthy retirees;
- Very strong general fund balance with expectations it will be used to support operations over time; and
- Modest debt levels with no additional debt issuance plans and rapid amortization, which partially offsets a high debt burden.

Limiting credit considerations are:

- An economy that is somewhat reliant on sectors sensitive to changes in discretionary consumer spending (tourism and retail),
- Historically high unemployment rates, and
- High fixed costs (retirement and debt) that consume about 30% of the budget.

The 2013 bonds are the library's only debt outstanding and are secured by ad valorem taxes, which the library is authorized and required to levy without limitation as to the rate or amount upon all taxable property within the library district in amount sufficient to pay the annual principal debt service.

The Cheboygan Area Public Library, located in Cheboygan County, serves about 13,993 residents. The service area encompasses the boundaries of the Cheboygan Area Schools district, including the city of Cheboygan and surrounding townships, with the exception of Mullet Township. The economy relies on tourism, services, and retailing--sectors that make it somewhat vulnerable to dips in discretionary spending. Due to the district's geographic location, most residents are employed locally. Reflective of the seasonal nature of employment, Cheboygan County's unemployment rate has remained much higher in off-season months. Historically, county's annual unemployment rate has exceeded state and national rates. The not-seasonally adjusted unemployment averaged 8.8% in 2015, with expectations it will remain relatively stable in 2016.

We believe the library district's other economic indicators are mixed. Median household effective buying income is, in our opinion, adequate, at 72% of the national level. However, market value per capita is very strong, at \$89,890, due to

a large number of higher-valued second homes and lakefront properties in the area. Between 2009 and 2012, taxable value fell 7% to \$525 million, but since then, it has increased slightly to \$531 million in 2015. Management projects a slight increase in taxable values in 2016.

Michigan public library districts are funded by voter-approved property tax levies. Districts can request and levy up to four mills, yet not more than two mills can be levied in perpetuity. In 1995, district voters approved a 0.75-mill, in-perpetuity operating levy. The levy was permanently reduced to 0.65 mills due to a constitutional millage rollback. Voters in 2010 approved a 0.10-mill increase. Any future levy increase has to be approved by a majority of voters. In August, management proposed a 0.5-mill increase that was defeated, though it expects to ask for this increase again to balance increasing expenses with additional revenues.

The district's financial reserves are very strong, as the unassigned fund balance has exceeded 120% of operating expenditures over the past five years. Despite the availability of the very strong reserves, we believe the library's financial health could deteriorate due to pressures on the revenue side and to limited budget reduction options. A decline in the tax base and variable penal fine revenues have pressured revenues recently.

The last audited results for June 30, 2015, showed a deficit of \$19,000 that reduced the unreserved general fund balance to \$635,000, or 123% of operating expenses, which is, in our opinion, very strong. Officials have budgeted for break-even operations in fiscal 2016, but they expect to close the year with a modest surplus, given higher-than-expected penal revenues. Management states that unless penal revenues remain higher than expected and the economy remains weak, the library's budget will continue to dig into reserves and will eventually be unsustainable. As a result, the library is likely to ask for a millage increase in the next few years.

The district regularly reports budget-to-actual results and investment holdings and earnings to the board. It has the flexibility to amend the budget during the fiscal year. The district adopted a formal reserve policy of maintaining an unrestricted net asset reserve of at least 50% of operating expenses from the previous fiscal year's audited financial statements. The district does not have long-term budget or capital plans.

The district's overall debt is low, in our opinion, at \$977 per capita, or 1.1% of market value. Overlapping debt constitutes 82.8% of overall net debt. Direct debt is \$175 per capita, or 0.2% of market value. The debt service carrying charge for fiscal 2015 was 31%, which we consider high. Amortization of existing principal is rapid, with officials planning to retire 100% over the next 10 years. It is our understanding that the library has no plans to issue more debt during the next two years.

All library employees who were employed prior to the library's separation from the Cheboygan Area Schools on Nov. 3, 1994, participate in the Michigan Public School Employees Retirement System (MPERS). Under the MPERS Act, all retirees have the option of continuing health, dental, and vision coverage, which are funded on a cash disbursement basis. Employees hired after Nov. 3, 1994, participate in a 403(b) plan. For fiscal 2015, the district's total contribution for pension and other postemployment benefits was a minimal 2.8% of total governmental expenditures.

## **Outlook**

The stable outlook reflects our expectation that over the two-year outlook period management will make budget adjustments to offset declines in taxable value and maintain at least strong available fund balances on a nominal basis.

### **Downside scenario**

If the structural budgetary imbalance grows in the next two years such that general fund reserves materially deteriorate, we could lower the rating.

### **Upside scenario**

We could consider an upgrade if the local economy improves in the longer term or the library's revenues increase at a more sustainable level such that reserves continue to grow.

## **Related Research**

Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.